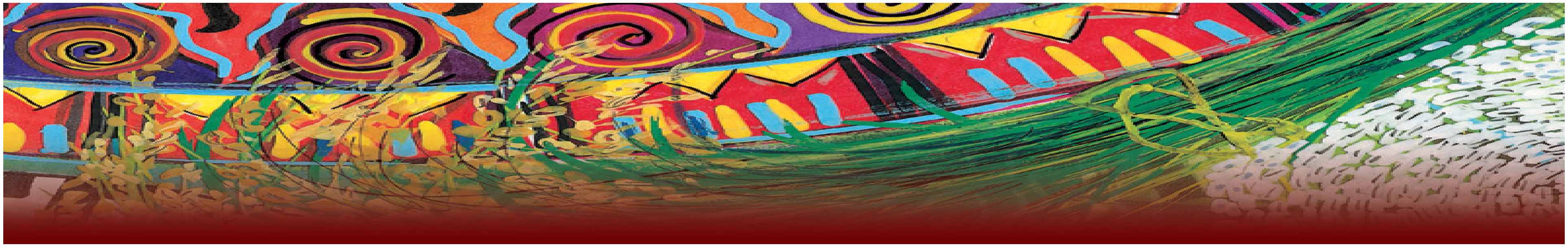

NEW AGRICULTURAL FINANCE AND PRODUCTION MODELS

From investment funds and Finance-Value-Chains to questions about the African peasant

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- Introduction
- Presentation of 3 renewed models
  - 1- Commercial banks integration in agriculture production
  - 2- Investment Funds and agricultural engineering companies
  - 3- PPP and share equity schemes
- Concluding thoughts

Scope of the presentation

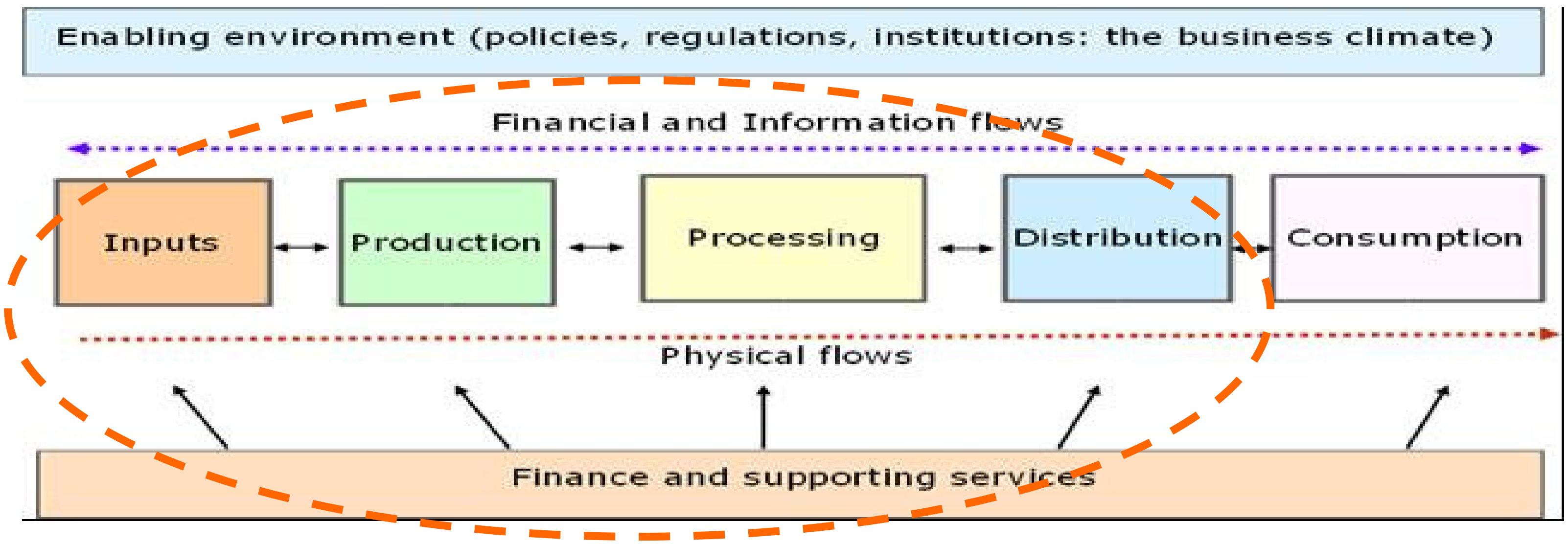
- Descriptive project to better understand how the agricultural sector – finance and production models - is evolving

- Results: identification and description of different finance and production models (and inherent elements/actors)

- South African based study – SA as a pilote country for several renewed models

Total integration and the concept of finance value chain

- Finance value chain as new agricultural development paradigm - sustained by international agencies (WB, Agribusiness and innovations in Africa)



- Interdependence between the different segments - Capital and information circulation along the chain
- Integration of primary production / finance in an overall cycle
- Spreading the risks / insurances / no collateral
- Implementation of new finance and productive mechanisms through this value chain integration

1- Commercial banks integration in agriculture production

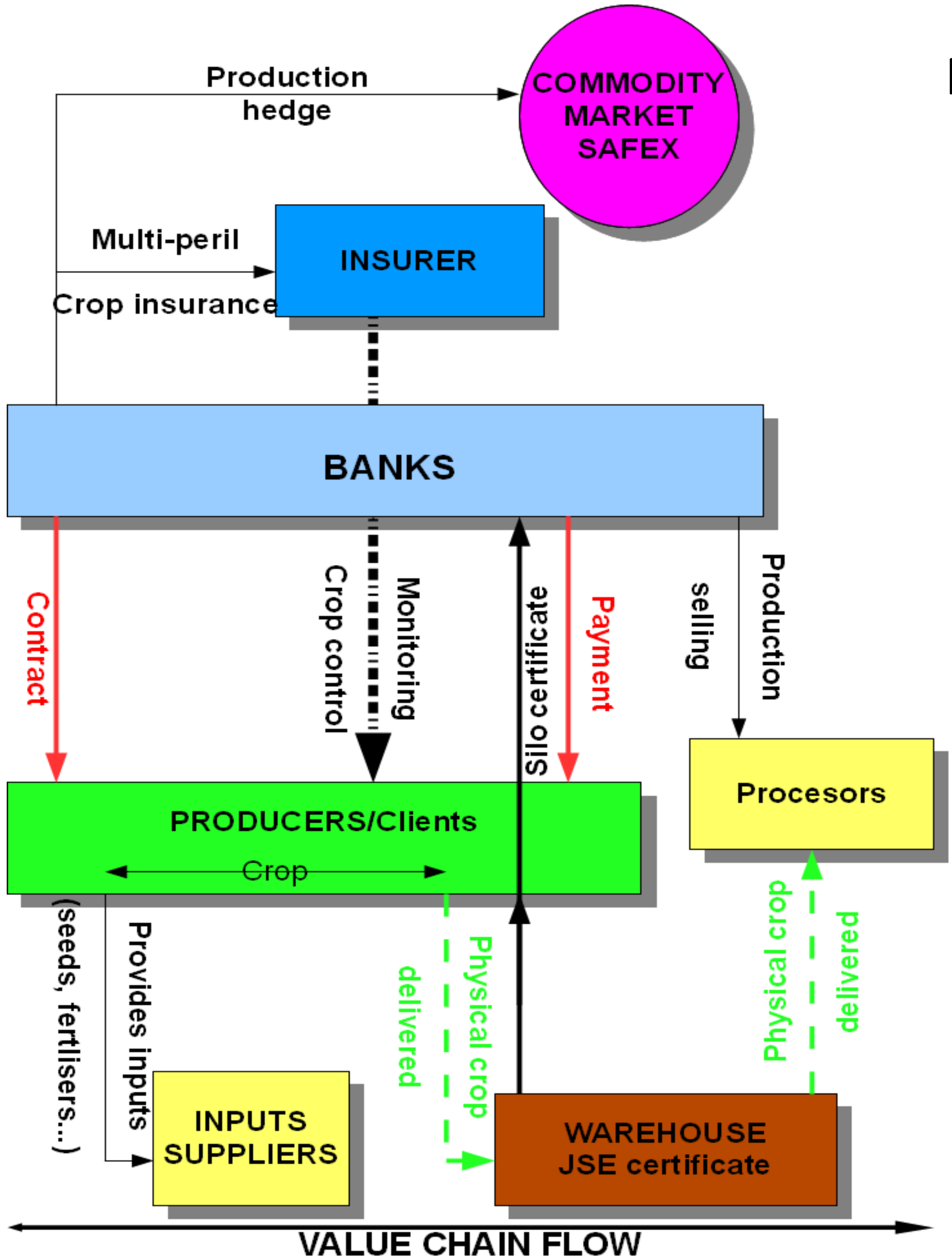
- Banks are traditional creditors and partners of all the value chain actors
- “Traditional” financial way: loan secured by mortgage bonds

Transformation of the context:

- High cost of productive, competitive agricultural production (Input prices increase - the land is not enough as collateral)
- Collapse of public funding (land bank, etc.)
- Higher – fluctuating commodity prices
- Benefit from the introduction logistical and technical innovations (monitoring, transport, silo certificate, futures market)

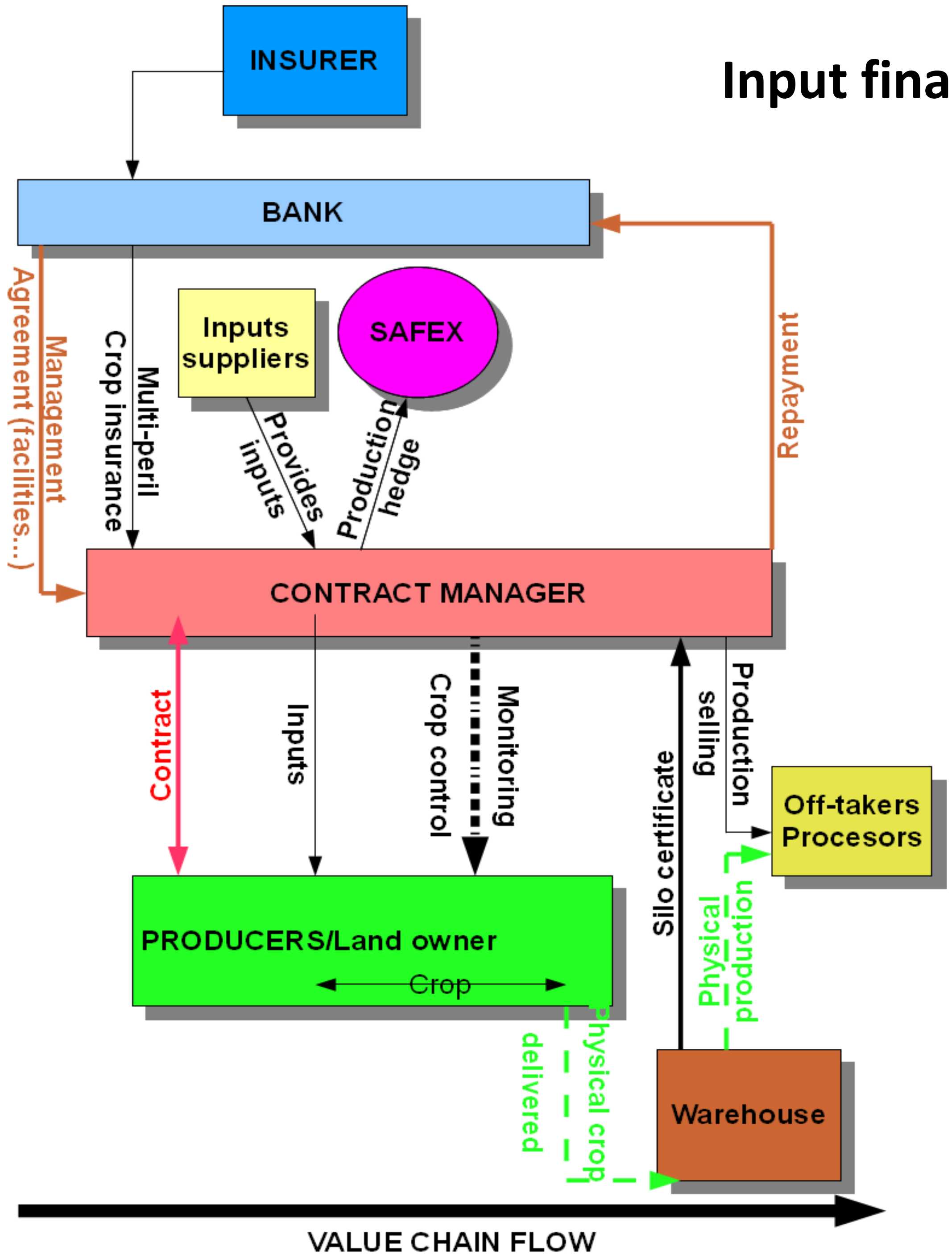
2 different models:

- The pre-crop contract: the production as collateral
- The Input finance model: The intermediarisation by an agricultural engineering enterprise



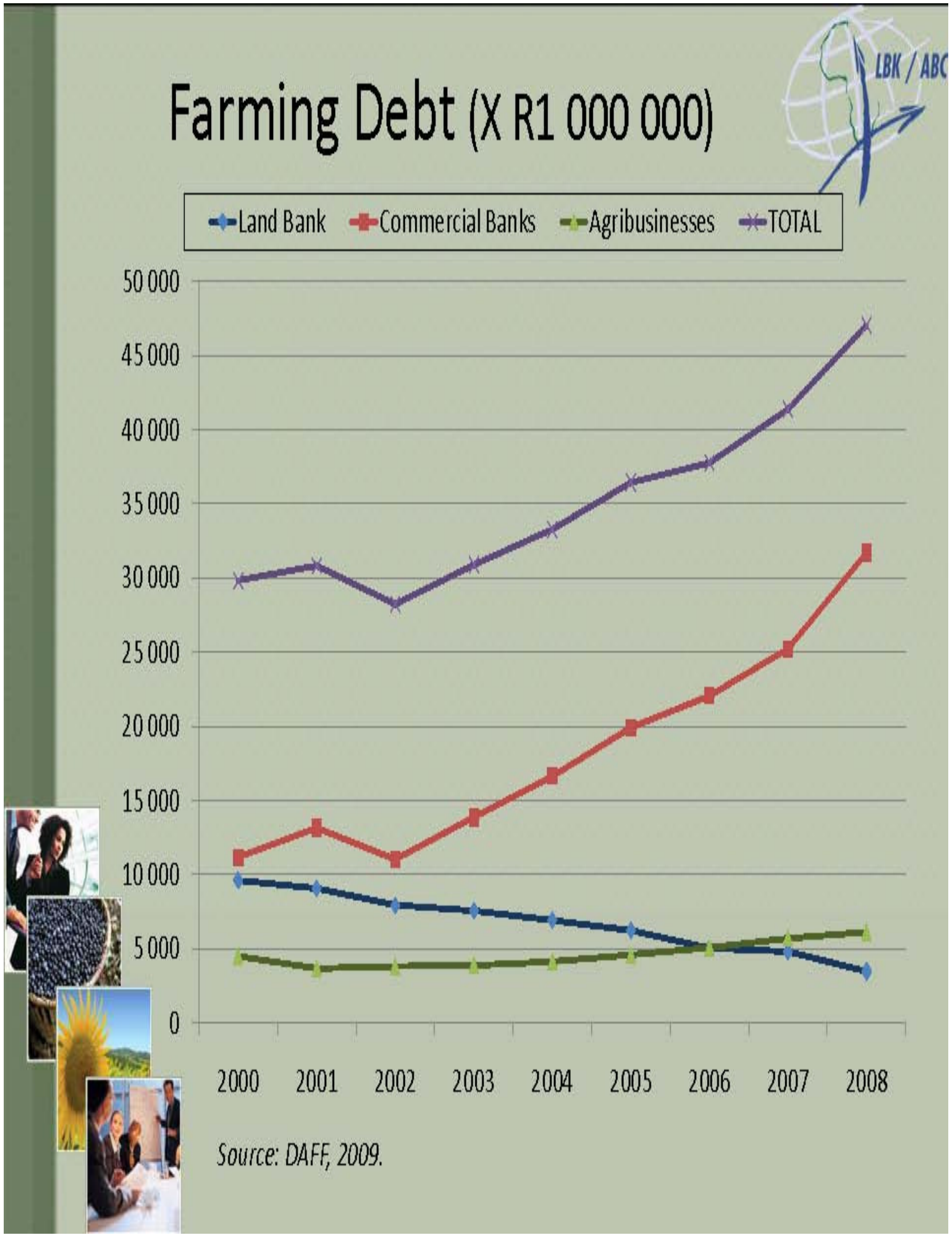
Pre-crop banking model

- The production is never owned by farmer - The risk is managed thanks to hedging on futures market
- Selling price, type of production & quantity are fixed at the beginning
- The production risk (flood, drough…) is covered by the multi-peril insurance - banks
- The repayment risk is transformed in performance risk
- Monitoring during the crop and before the harvest by the bank or the insurance company
- Farmer remuneration is the fixed price of the production less the inputs cost and the bank interest



Input finance & management model

- Management agreement: the manager receives all finances, the multi-peril crop insurance and hedge in the name of Bank
- The bank transmit all the risks on this intermediate
- Contract growing or the land is leased by the manager; the producers are employees of this company
- Crop (silo certificate) ‘owned’ by the manager
- The manager gets inputs at lower cost thanks to reputation and economies of scale
- Precision farming (satellite monitoring)
- Geographical diversification to mitigate the risk



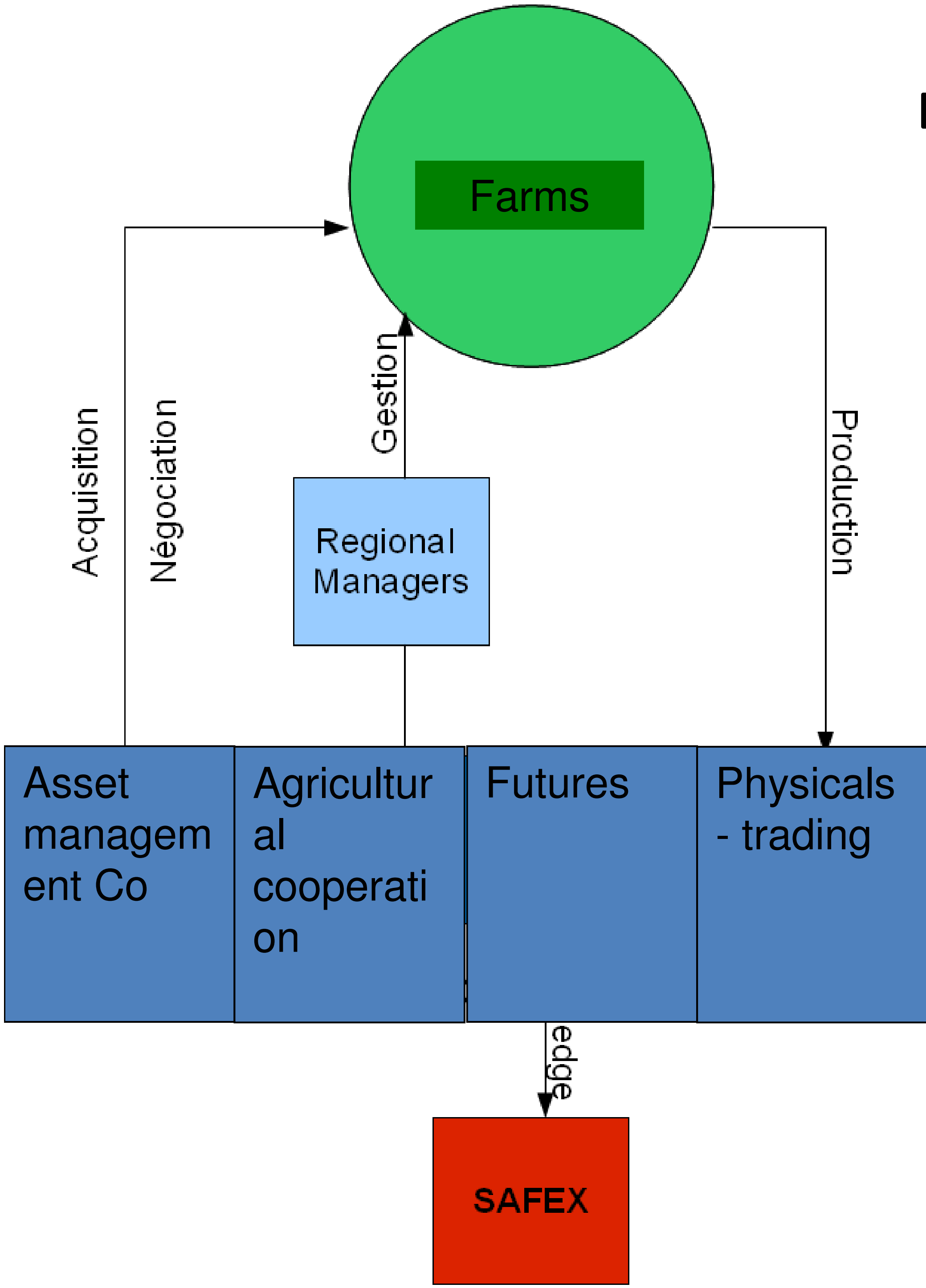
- This two models were first implemented in the cereal chain
- Pre-crop: 10% of the overall cereal production
- Input finance: 300/400 farms in SA (12% of the summer cereal production)
- Selection process (Solvability and track record experience, Application for multi-peril must be approved, Minimum superficies,500ha)
- Now, the banks are looking in other chain : cattle, fresh products industry.
- Banks are getting a major role (cf. Debt graph)

2- Investment Funds and agricultural engineering companies

- Agriculture as a new financial opportunity
- Cheaper financial option for direct engagement in agriculture

- Development of investment and equity funds focusing on agricultural production AND land
- Investors – international businesses, Commercial Banks, Development Banks, Financial companies
- A management company takes care of funds
- Diverse strategies, depending on expectations of investors (return rate, fund life-term…)

- 2 different models:
  - Direct investment in land
  - Equity fund



Direct investment on land

- Buying up land with the expectation of increased land and food prices
- Different strategies:
  - Example of Asset Management Companies; Direct production control (+40 farms as risk mitigator)
  - Speculation on land (Land as a risk asset in SA)

Equity funds

Buying shares (or equities) in agricultural and agri-business enterprise and/or primary production

- Private

  Strategy 1:

  - minority position (20 to 34%),
  - control on the managerial structure but not on the agri-business activities,
  - corporate approach,
  - Up and down stream activities,
  - only in SA

  Strategy 2:

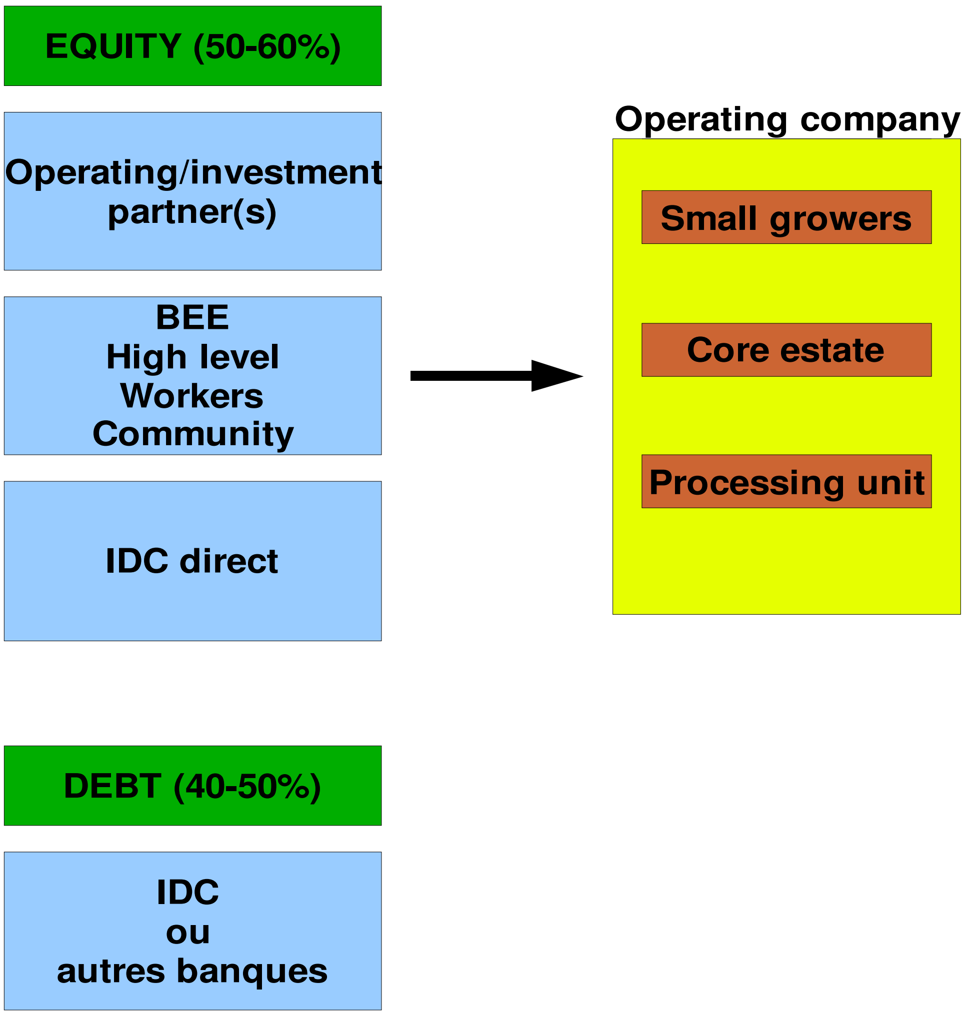
  - majority position (50 to 75%),
  - direct control of agricultural and agri-business activities,
  - individual and corporate approach,
  - SA and Africa,
  - Primary production,
  - Buy farms
  - closed fund

- Public

  Public development Funds

  - Investors: Development Banks, International organizations, etc.
  - Local fund as management society
  - Investment along entire value chain – production and agribusinesses
  - Double focus on commercial/large scale agriculture (80%) and small scale (20%)

3- PPP and share equity schemes



- Equity scheme as agricultural development reference
- Division between land owners and business owners
- Community as labour and/or rent-seeker
- PPP, Special partnership
- State as direct investor

Some concluding thoughts…

The "revenge" of the agricultural sector after 30 years

New financial models brought along by renewed actors
- New types (engineering, financial, industrial sectors)
- New origins (foreign capital)

➡ Generate new productive agricultural models
&
➡ Redraw the orthodox frontiers of the agricultural sector

Some concluding thoughts…

Economic implications of these renewed models

- What about Small-Scale Farmers?????????
  - Corporatization of the agriculture
  - Making the dominant model more dominant: The integrated/finance value chain approach favor bigger farms with capital and knowledge to achieve objectives
  - Reinforce the duality of the agricultural structure?

- Competition - All the participants in the value chain don’t get the same benefits
  - Certain macro-actors have an omniscient position (primary production, hedge, cleaning house…): The macro-actors grab most of the value
  - Finance opportunity or biased competition?

- Concentration and foreignisation of the sector
  - Financial and technical capital needs become higher and higher and limit the number of participants to enter
  - Different objectives (speculation) – What about food security? Food sovereignty?

➡ The need for new regulations of the sector ?

Some concluding thoughts…

Socio-Professional implications of these models

- Marginalization in the decision making process for the communities and independent family (small scale and large scale) farmers
  - probably more a 'service provider'
  - The end of the peasant?

- Which future for agricultural sector?
  - No family faming anymore?
  - Only seasonal jobs expansion?

- Dependence cycle: with cycle production loan (12 months) impossibility to realize productive investment

Some concluding thoughts…

Where is the public policy debate ?

- Since governments do not rethink own agricultural development policy, this integrated/finance value chain approach privately driven tends to become the overall reference
- Public sector tend to appoint private companies as new development partners
- From public norm to private norm, defined according to international market
- Project by project conception, no overall vision

Some concluding thoughts…

Export of renewed models ?

- SA as a laboratory for the rest of Africa
- Models (by SA or local businesses) are spreading their activities all over the African continent
  - Certain banks already present in 14 countries
  - Asset management Co extending in 18 countries…
    - Linked to this expansion perspective, development of new instrument to do business in a less appropriate environment
- Questions all the more important in agricultural-based countries with very few job alternatives
  - What alternatives?
  - Towards a geographical working division, primary production abroad (cf. DCR) and processing/marketing/hedging in SA?

THANK YOU

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